# Growing Economies

| Characteristics of growing economies | Characteristics of developing economy |
|---|---|
| - High income<br>- High literacy rates<br>- High life expectancy<br>- Highly industrialised<br>- Good infrastructure<br>- Low levels of unemployment | - Low income<br>- Low literacy rate<br>- Low life expectancy<br>- Poor infrastructure<br>- Reliance on primary sector<br>- High unemployment<br>- High population |

Emerging economies

- They are developing countries where there is rapid growth and significant risk
- Investors like emerging economies
- BRICS (Brazil, Russia, India, China, South Africa)
- Growth rate of emerging economies is higher than developed countries

Growing power of Asia, Africa and other parts of the world

- India and China (BRICS) among 5 largest economies in the world
- China is one of the biggest investor to other countries
- China has efficient suppliers and excellent infrastructure
- Availability of low cost labour

Implication of growth for individuals and businesses

- Trade opportunities
    - Demand for goods and services increase
    - Improve standard of living
    - Better opportunities for trade
    - More choice for consumers
- Employment patterns
    - Employment rates, trends and cost important to firms
    - If employment is low, less saving and spending
    - If unemployment high, business may not export to the country

Indicators of growth

- GDP (per capita) → gross domestic product
- HDI → human development index
    - Life expectancy
    - Mean years of schooling

# International Trade and Business Growth

International trade

- Allows to obtain goods that cannot be domestically produced
- Enjoy goods at cheaper price (comparative advantage)
- Consumer choice
- Opportunity to sell surplus
    - Visible trade: Trading of tangible/visible goods
    - Invisible trade: Trading of services

Implication of increased specialisation
- Division of labour
- Specialisation
    - Specialisation due to more efficient production
    - Gain competitive advantage
    - Reduce cost and increase profit margin

FDI and link to business growth
- Potential to make high profits by investing in new markets
- Avoid trade barriers
- Gain knowledge of new market

Reasons for FDI over exporting or licensing
- Keep tight control
- Protect intellectual property
- Close to customers
- Avoid high transport and logistic costs

Types of FDI
- Joint venture: collaborative agreement between two or more businesses
- Strategic alliance: collaboration to share resources and intellectual property
- Cross border mergers and acquisitions
- Greenfield facilities
- Horizontal FDI: produces same product as back home
- Vertical FDI: control part of the supply chain

# Factors Contributing to Increased Globalisation

Globalisation is the integration of the world economies through freedom of cross border movements

Key features of globalisation
- Goods and services traded throughout the world
- Live and work in country of choice
- High level of interdependence between countries
- Capital movement flows freely between countries
- Sharing of technology and intellectual property

Trade liberalisation, reduction of trade barriers and role of WTO

Trade liberalisation is the trade between nations without restriction from trade barriers

Disadvantages of globalisation
- Exploitation by businesses
- Governments resistance to getting involved
- Introduction of trade barriers

Role of WTO
- Trade negotiations: reduce trade barriers and draw trade agreements
- Implementation and monitoring: monitor WTO”s rules for trade
- Settling trade disputes: experts make judgements about whether rules are broken
- Building membership: 20 countries yet to join

Political change
- In 1991, breakdown of soviet union
- Countries opening economies and drawing up trade agreements

Reduced cost of transport and communication
- International transport networks improved
- Containerisation
- Transfer of complex data to any part of the world instantly
- Cost of flying has reduced

Increased significance of global corporations
- Organisation owns and controls production in more than one country
- Significant contribution to GDP
- Huge investments into research and development

Increased FDI flows
- FDI usually by multinational companies
- Spread business activity, employment and wealth
- Avoid trade barriers

Migration
- Supply of low cost labour
- Significant proportion of money sent back home
- Fill skill gaps
- Increase demand and standard of living

Growth of labour force
- Increased population, working women, high life expectancy and migration
- Bigger global market
- Increased labour force results in lower wages

Structural change
- Move to service sector
- Export oriented
- Recruit skilled workers and establish global presence

Benefit to businesses of globalisation
- Access huge markets
- Low costs
- Access to labour
- Lower taxes

Drawbacks to businesses of globalisation
- High competition
- Interdependency
- Exploitation of workers
- Power of MNC may cause small firms to shut down

# Protectionism

Reasons for protectionism
- Protect dumping
- Protect employment
- Protect infant industries
- Gain tariff revenue
- Prevent entry of harmful and undesirable goods
- Reduce current account deficit
- Retaliation

| | |
|---|---|
| Tariff (tax on imported goods)<br>Benefits:<br>- Protect infant industries<br>- Tax revenue<br>- Reduce dumping<br>Drawbacks:<br>- Increase cost<br>- Reduce competition<br>- Reduce choice | Quota (limit of quantity of a good)<br>Benefits:<br>- Protect employment<br>- Easy to change<br>- Less confrontational<br>Drawbacks:<br>- Increases price D&S<br>- Generate tension<br>- Less efficient domestic firms |
| Domestic subsidies (Financial support to domestic producers)<br>- Interest free loans<br>- Protect jobs in industry<br>- Increase competitiveness | Government legislation<br>- Ensure imports meet regulations and specifications<br>- Prevent entry of certain products<br>- Protect customers from harmful goods<br>- Protect wildlife, domestic animals and environment |

Impact of protectionism on businesses
- Reduce competition
- Increase import price
- Allow domestic firms to compete more easily

Disadvantages of protectionism
- Retaliation from other countries
- Decrease consumer choice
- Free trade allows for more efficient production
- Free trade lead to specialisation

# Trade Blocs

Expansion of trade blocs
- WTO promotes free trade
- Regional trade agreements between countries within same geographical area

Free trade area (ex-NAFTA)
- Removal of all trade barriers
- Different agreements with non member countries

Customs union (ex-CARICOM)
- Removal of all trade barriers
- Common barriers with non member countries

Common markets (ex-ASEAN)
- Free movement of factors of production
- Removal of trade barriers
- Work together on economic and political policies

Economic union (ex-WMU)
- Closer economic and political ties between member states
- Use of common currency
- Made by customs and common markets

# Conditions That Prompt Trade

- Obtain goods that cannot be domestically produced
- Obtain goods that can be bought more cheaply from other countries
- Sell excess supply

Push factors
Push factors are the unfavourable factors in the market that causes an organisation to seek international opportunities

- Saturated market
- Competition

Pull factors
Pull factors are the opportunities that entice a business to set up in a new market

- New or bigger market
- Low cost or more secure resources
- Low transport costs
- Technological expertise
- Intellectual property rights

Benefits

- Increased sales and profitability
- Economies of scale
- Risk spreading

Offshoring
Offshoring is when production or service industries move to a location with lower costs
Advantages of offshoring

- Reduced costs
- Hire workers with particular skills

Disadvantages of offshoring

- Language and cultural differences
- Political, economic or technological risks
- High management costs and reduced efficiency and quality

Outsourcing
Outsourcing is moving an entire business function or project to a specialist external provider
Advantages of outsourcing

- Reduced costs
- Specialise areas of the business
- Improve speed, flexibility and quality

Disadvantages of outsourcing

- Loss of expertise and knowledge
- Conflicts may arise due to disagreement
- Poor communication issues

# Assessment of Country as a Market

Level of growth and disposable income
- If customers have sufficient income
- If income is growing over time

Ease of doing business
- Rules and regulations involved in establishing in new market
- Access to credit, registering property and contracts

Infrastructure
- Transport and utilities
- Sufficient levels of transport and communication

Political stability
- External threats from border conflicts
- Nature of relationship between business and government
- Level of corruption
- Approach to tax and legislation

Exchange rate
- Subject to extreme fluctuations
- Impact price of raw materials and components
- Price of exports

Use of Porters 5 forces to analyse competitive nature of the market

# Assessment of Country as a Production Location

Cost of production
- Gain competitive advantage
- Labour cost

Skill and availability of labour force
- Cost and quality of labour
- Skill to maintain quality standards
- Cheap labour likely untrained

Infrastructure
- Roads, airport and railways
- Commercial services
- Hospitals and education

Location in trade bloc
- Help in avoiding trade barriers when exporting to member countries

Government incentive
- Tax breaks and low corporation tax
- Low corporation tax and tariffs
- Cheap rates on premise

Ease of doing business
- Ease in setting up
- Level of bureaucracy
- Tax collection

Political stability
- Bribery
- Makes investment risky

Natural resources
- Close to raw materials

Return on investment
- Investment appraisal techniques such as payback, ARR, SWOT, PESTLE, NPV

# Reasons for Global Merger, Takeover and Joint Venture

Spread risks
Economies of scale
Enter new markets and trade blocs
Acquire national or international brand names and patents
- Strong brand recognition
- High loyalty
- Limits competition
- Reduce risk and uncertainty

Secure resources and supplies to ensure quality supplies
Maintain or increase global competitiveness
- Economies of scale
- Pricing power
- Low corporation taxes

Reduce competition
- Reduce pressure from competitors

Acquire knowledge on global knowledge
Government or legal requirement to partner with local businesses
Access supply chains and distribution networks
Share costs and risks

# Global Expansion and Uncertainty

Advantages of being an MNC
- Bigger economies of scale
- More scope for better resources
- Closer to customers
- Knowledge and scope for innovation
- Diversification of risk

Due to the interdependency and economic integration between countries, an event in one country can have serious impact on other countries

Effects on exchange rate movement on businesses
Appreciation and revaluation:
- Cheaper imports
- Expensive exports

Depreciation and devaluation
- Expensive imports
- Cheaper exports

Significance of changes in the exchange rate on businesses

- Elasticity of demand (inelastic demand has less impact due to depreciation)
- Significance of cause of fluctuation: (Efficiency and productivity → stronger currency)
- Fixed contracts: (fluctuations have small impact, protect from uncertainty)
- Economic risk (future cashflow changes due to exchange rate fluctuations)

Skill shortage and impact on competitiveness

- Higher wage
- Lower quality due to unskilled labours
- Lower productivity
- Loss of business due to labour shortage

# Global Marketing

Planning, producing and promoting a businesses products in the international market

Localisation is the use of strategies which fit with the target customers
Glocalisation is the development and sale of products to customers around the world which reflect the specific local costumes, tastes and traditions

Ethnocentric approach is where overseas markets are seen as identical or similar to domestic markets with little or no attempt to adapt to different markets
Advantages of ethnocentric approach

- Economies of scale
- No development cost of establishing in new market
- Lower prices lead to increased competitiveness

Disadvantages of ethnocentric approach

- May not sell well
- Significant risks

Polycentric approach is where business adapts their products to the local market which they plan to sell the product in
Advantages of polycentric approach

- Easier to get accepted into new markets
- Reduce advertising and promotional costs as they may not be needed
- Increased sales and revenue

Disadvantages of polycentric approach

- R&D can be expensive
- Risky

Geocentric approach is where business maintains and promotes the braind name while adapting to local markets
Advantages of geocentric approach

- Sales likely to increase
- Develop brand loyalty

Disadvantages of geocentric approach

- High cost of development

Adaptation of marketing mix in the global market
Product: Level of adaptation to the new markets
Price: Level of income as well as costs
Place: How local consumers choose to buy a product
Promotions: Language and cultural differences

Application of Ansoff matrix to global marketing
Ansoff matrix shows potential growth options for a business
Market penetration: Adaptation of products to market which they operate in
Market development: Marketing of existing products in new markets
Product development: Promote new or modified products in existing markets
Diversification: New products in new markets

Application of porter's strategic matrix to global marketing
Porter's strategic mix is identifying the sources of competitive advantage a business may achieve in a market
Cost leadership: Business attempts to be the lowest cost supplier
Differentiation: Distinguishes products from rivals competitors in mass market
Focus: Target a narrow range of customers

# Global Niche

Cultural diversity
- Language
- Hobbies and interests
- Economic development (level of income)
- Religious norms (different holidays)
- Social norms
- Legal systems
- Weather and climate
- History and tradition

Features of a global niche
- Innovation: highly differentiated
- Excellent customer service
- Prioritise profit over market share
- Emphasis in quality
- Clear understanding of needs and wants of the niche

Adaptation to global niche
- Product: Emphasis on quality and marketed as exclusive products
- Price: Adaptation to suit audience
- Promotion: Marketing strategies that resonates with audience
- Place: Convenient distribution channel and speciality stores and online platforms

Advantages of catering to a global niche
- Can charge high price
- Build brand image

Disadvantages of catering to a global niche
- Low sales volume
- Prevents economies of scale

# Impact of MNCs

Impact on local economy:
Local labour and job creation
- Create employment
- Provide training

Wages and working conditions
- Increase wages due to increased demand for labour
- Favourable working conditions
- Adapt internationally recognised standards

Local businesses
- May be involved in construction of new plant
- Supply raw materials and components
    - Competition for local businesses

Local economy and environment
- Improvement of infrastructure
- Contribute to government taxes
- May donate to charities
    - May damage environment

Impact on national economy
Economic growth
- Create jobs
- Extra output
- Improve living standards
- Increase wage

FDI flows
- Increase in tax revenue
- Increase in employment
- Reduce national debt

Balance of payment
- Improve BOP
- Sell output in other countries
    - May buy resources from oversees
    - Repatriation of profits

Technology and skill transfer
Consumers
- More choice
- Lower prices
- Improved quality
    - Domestic producers may leave, reducing choice

Business culture
- May encourage entrepreneurship
- Workers develop skills

Tax revenue
- High tax revenue

# International Business Ethics

Ethics are the principals and acceptable norms that govern good behaviour
Stakeholder conflicts
- Consumers:Product safety and un misleading advertising .
- Employees: Employee safety and redundancies
- Shareholders: Short and long term returns
- Communities Well being, environmental concerns and depletion

Environmental considerations
- Emissions
- Waste disposal
- Sustainability
    - Avoid use of non renewable resources
    - Use of recycled materials
    - Pollution

Supply chain considerations
- Pay and working conditions
    - Fair wage
    - No child labour
    - No discrimination
    - Working hours are not excessive
- Exploitation of labour (modern day slaves)
- Child labour

Marketing considerations
- No misleading labelling
- No inappropriate marketing activities

# Controlling MNCs

Power of MNCs
- Monopolist and exploit customers
- Dominates market
- Avoid tax payments
- Well resourced to fight court battles

Political influence
- Create, manage and end businesses
- Help challenge businesses and address issues of concern
    - Facilitate corruption
    - Inefficiencies, misallocation of resources

Legal control
→ Competition policy
→ Taxation policy
→ Legislation policies
- Improve competition
- Consumer protection

        - Not easy to enforce
        - May move facilities to different country

Consumer pressure

- Campaign against MNCs
- Use of review systems

Pressure groups

→ Boycotting
→ Media criticism
→ Direct action (demonstrations and protests)
→ Lobbying (taking complaints to the government)

- Enlists committed people
- Quickly gather information
- Raise awareness about issues
- Alerts politicians and authorities
    - Can be ill informed
    - Some messages may be impossible for pressure groups to influence
    - Direct action can lead to violence
    - Can be disruptive

Social media

- Collecting information is easier
- Increased social information
- Greater transparency
- Bring people together

Self regulations

- Avoid compliance costs
- Improve brand image and reputation
- Encourage employees to adapt ethical behaviour